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## **Department of Insurance recovers \$27 million in Bank of Louisville/Kentucky Central case**

**FRANKFORT, KY.** - Insurance Commissioner Janie A. Miller today announced a \$27 million settlement today with Bank of Louisville in her role as liquidator for Kentucky Central Life Insurance Co.

The agreement was finalized Tuesday in Franklin Circuit Court, concluding a 1993 lawsuit filed by the Department of Insurance on behalf of collapsed Lexington insurer Kentucky Central. Defendants included: the Bank of Louisville; holding company Mid-America Bank of Louisville; Dudley Webb; and Webb entities.

The dispute involved securities offered as collateral worth more than \$15.65 million that were deposited by Kentucky Central with the Bank of Louisville in June 1992. In June 1993, the bank liquidated the securities and applied the proceeds to cover an outstanding debt of Dudley Webb, which the state argued was not due nor in default.

Miller, as Kentucky Central's liquidator, said: "This settlement resolves a nearly 9-year dispute and benefits Kentucky Central policyholders, creditors and stockholders. We have now recovered \$204 million through these years of liquidation, with today's \$27 million added to the previous \$177 million."

The Department of Insurance won a first round in Franklin Circuit Court on Nov. 14, 2000, when Special Judge Roy N. Vance issued a partial summary judgment. Vance ruled that Bank of Louisville had no right to sell the securities and to require Kentucky Central to purchase the Webb note, whether the Webb note was in default or not.

After Vance's ruling, both parties continued talks and entered into mediation, leading to the court-approved settlement. In the settlement, both parties agreed that there was no finding or admission of fault. The \$27 million was paid immediately and includes 15.65 million for the actual value of the securities and the remainder in interest, attorney fees and costs.

In previous court filings, the department had alleged that the bank loaned the Webbs \$13.5 million on Sept. 15, 1989, with the note due by June 1, 1992. Less than \$10 million was advanced to the Webbs and the remainder was retained by the bank to pay interest and expenses related to the note as it became due.

Kentucky Central and the Webbs entered into a deal regarding the bank note. When the 1989 note came due in 1992, R. Dudley Webb asked for a two-year extension.

Kentucky Central entered rehabilitation due to financial problems when the Department of Insurance took over daily operations of the Lexington company on Feb. 12, 1993.

In June 1993, the bank sold Kentucky Central's securities for \$15,392,411. The Webbs did not convey real estate to Kentucky Central that was part of the related transaction.

The department sued the Bank of Louisville at the end of 1993, alleging the bank had no right to sell the securities and to require Kentucky Central to purchase the Webb note. In its defense, the bank contended the note was in default.

On Aug. 18, 1994, Franklin Circuit Judge Graham declared Kentucky Central was insolvent.

**Note:** The formal case cite is *Janie A. Miller, liquidator of Kentucky Central Life Insurance Co. v. Mid-America Bank of Louisville and Trust Co., dba Bank of Louisville and Trust Co., et. al., Franklin Circuit Court, Civil # 93-C1-01 967-AP-011.*